

**Child,
Van Wagoner &
Bradshaw, PLLC**

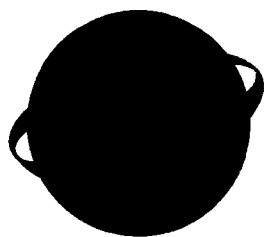
Millard County Housing Authority

**Independent Auditors' Report, Management's
Discussion and Analysis, and Supplemental
Information**

Year Ended December 31, 2005

**Millard County Housing Authority
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Independent Auditors' Report

To the Board of Commissioners
Millard County Housing Authority
Delta, Utah

We have audited the accompanying statement of net assets of the business-type activities and each major fund of the Millard County Housing Authority (the Authority), as of December 31, 2005, and the related statements of activities, changes in net assets (deficit) and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2005, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2006, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants and agreements, and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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Board of Commissioners
Millard County Housing Authority

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying program specific financial data on pages 22 through 26 is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Authority for the year ended December 31, 2005. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Child, Van Wagoner & Bradshaw

Child, Van Wagoner & Bradshaw, PLLC
Kaysville, Utah
June 14, 2006

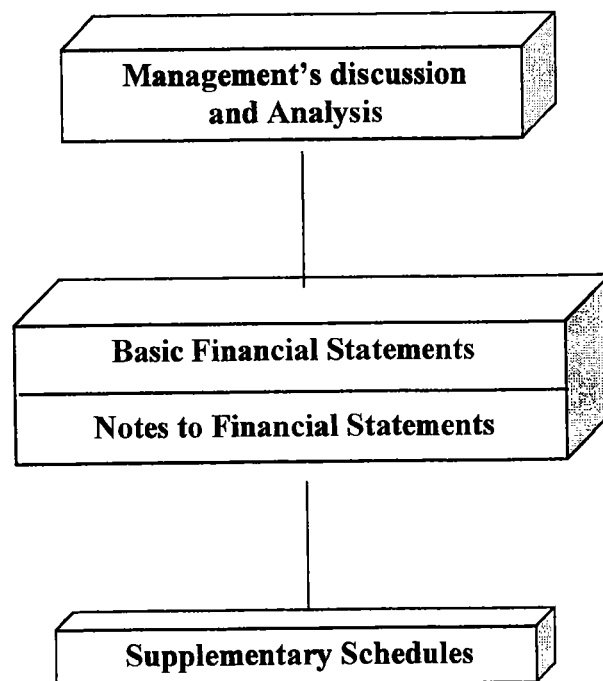
**Millard County Housing Authority
Management's Discussion and Analysis (MD&A)
Year Ended December 31, 2005**

INTRODUCTION

The Millard County Housing Authority (the Authority) was created under the laws of the state of Utah. The purpose of the Authority is to administer programs in the Millard County area under the Housing Act of 1937, as amended. The Federal Government subsidizes these programs by direct awards through U.S.D.A. Rural Development (RD). The Authority is governed by a five-member board of commissioners, which is appointed by the County Commissioner. The Board, in turn, elects a Chairperson to administer the affairs of the Authority.

The Authority presents this discussion and analysis of its financial performance during the fiscal year (FY) ended December 31, 2005, to assist the reader in focusing on significant financial issues and concerns. This discussion and analysis is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued June 1999.

The Authority's FY2005 annual financial report consists of two parts – the management's discussion and analysis, and the basic financial statements (which include notes to those financial statements). Also included are supplementary schedules that show information that was sent to RD related to our basic financial statements.



Millard County Housing Authority
Management's Discussion and Analysis (MD&A) (continued)
Year Ended December 31, 2005

The basic financial statements provide information about the Authority's overall financial position and results of operations. These statements, which are presented on the accrual basis, consist of the Statement of Net Assets, the Statement of Activities and Changes in Net Assets (Deficit) and the Statement of Cash Flows. The basic financial statements also include a "Notes to Financial Statements" section that provides additional information that is essential to a full understanding of the data provided in the basic financial statements.

The primary focus of the Authority's financial statements is on a single business-type activity that combines all programs administered by the Authority. This discussion and analysis is focused on the primary activities of the Authority.

FINANCIAL HIGHLIGHTS

Under GASB Statement No. 34, the Authority's single business-type activity financial statements for FY2005 report on all of the Authority's assets, liabilities, revenues, expenses, and net assets under the programs it administers. A summary of the current-year results in comparison with the prior year results follows:

- Net assets of the Authority decreased \$75,944 as of December 31, 2005, from the prior year.
- Operating revenues of the Authority increased by \$52,025, or 14.0%, over prior year results.
- The Authority's long-term debt outstanding of \$2,250,352 as of December 31, 2005 decreased \$10,266 over the prior year.
- The increase in cash and cash equivalents for the year was \$10,445.

AUTHORITY FINANCIAL STATEMENTS

The Authority is presenting its FY2005 discussion and analysis based on the financial results of its enterprise programs in three basic financial statements – the statement of net assets; the statement of activities and changes in net assets (deficit); and the statement of cash flows. The statement of net assets reports all financial and capital assets of the Authority and is presented in a format where assets equal liabilities plus net assets. Net assets are broken down into the following three categories:

- *Net assets, invested in capital assets, net of related debt* consists of all capital assets net of accumulated depreciation, reduced by the outstanding balances of mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of these assets.

Millard County Housing Authority
Management's Discussion and Analysis (continued)
Year Ended December 31, 2005

- *Restricted net assets* consists of assets that are restricted by constraints placed on the asset by external parties, such as creditors, grantors, contributors, laws, or regulations reduced by liabilities payable from such assets.
- *Unrestricted net assets* consists of net assets that do not meet the definition of *net assets invested in capital assets, net of related debt or restricted net assets*.

The statement of activities and changes in net assets (similar to an income statement) includes operating revenues, such as rental income; operating expenses, such as administrative, utilities, maintenance, and depreciation; and nonoperating revenues and expenses, such as investment income and interest expense. The statement's focus is the change in net assets, which is similar to net income or loss.

Finally, a statement of cash flows is included, which discloses net cash provided by or used for operating activities, capital and related financing activities, and investing activities.

These financial statements utilize the economic resources measurement focus and the full accrual basis of accounting. They report the Authority's net assets and changes in net assets in full compliance with GASB Statement No. 34. Under the full accrual basis of accounting, revenues are recognized in the period they are earned and expenses in the period they are incurred.

The entity-wide presentation represents two different programs and activities. Most of these programs are financed by federal grants from RD, rents, and other user charges resulting from operations of subsidized housing, by management fees, and by investment income and loan proceeds. In FY2005, the following programs (seen in the supplementary schedule of expenditures of federal awards on page 27) make up the Authority's single business-type activities financial statements:

- *Rural Rental Housing Loans and Assistance Programs* – These programs are funded by RD and provide funds for the purchase of rental property and subsidy for low- and moderate-income families seeking housing in the private rental market.

Millard County Housing Authority
Management's Discussion and Analysis (continued)
Year Ended December 31, 2005

Net Assets

The Authority's overall financial position and operations for the past two years are summarized below based on the information included in the current and prior financial statements.

Millard County Housing Authority
Statement of Net Assets

	2005	2004	Total Percentage Change
Current assets	\$ 51,369	\$ 44,029	16.7%
Restricted deposits	258,430	256,464	0.8%
Fixed assets, net of depreciation	671,800	772,126	(13.0%)
Total assets	981,599	1,072,619	(8.5%)
Current liabilities	26,677	30,304	(12.0%)
Deposits and prepaid liabilities	10,329	10,550	(2.1%)
Noncurrent liabilities	2,239,122	2,250,350	(0.5%)
Total liabilities	2,276,128	2,291,204	(0.7%)
Net assets:			
Invested in capital assets	(1,578,552)	(1,488,491)	(6.1%)
Restricted net assets	248,101	245,914	0.9%
Unrestricted net assets	35,922	23,992	49.7%
Total net assets	\$(1,294,529)	\$(1,218,585)	(6.2%)

The Authority's total assets at December 31, 2005 were \$981,599, a decrease of \$91,020, or (8.5%), from December 31, 2004.

Cash and Cash Equivalents

Total cash and cash equivalents increased by \$10,445, or 29.6% as of December 31, 2005 compared with December 31, 2004. The primary source of the increase was due to an increase of rental assistance from RD.

Net Assets

The Authority's net assets decreased by \$75,944, or 6.2%, during FY2005. At December 31, 2005, investments in capital assets comprise about 68% of the Authority's total assets, while these assets carry related current and long-term debt of approximately \$2.2 million that is about 98% of its total liabilities. The negative balance related to the amount invested in capital assets, net of related debt, is due to the depreciation of fixed assets increasing faster than the reduction in notes payable principal balance. This is due to interest rates and overage charges the Authority is subject to with the RD mortgages.

Millard County Housing Authority
Management's Discussion and Analysis (continued)
Year Ended December 31, 2005

The Authority's net assets also consist of restricted and unrestricted net assets. Restricted net assets include cash restricted for tenants' security deposits and future modernization and development less liabilities that will be paid from these restricted assets. Restricted net assets includes \$248,051 in restricted cash for replacement reserves and \$10,379 for tenants' security deposits less liabilities in the amounts of \$10,329. Unrestricted net assets include cash in the bank, receivables, and other assets less all other liabilities not previously applied.

Statement of Activities and Changes in Net Assets

The results of operations for the Authority are presented below:

Millard County Housing Authority
Statement of Activities and Changes in Net Assets(Deficit)

	2005	2004	Increase/(Decrease) Amount	Percentage
Operating revenues:				
Rental income	\$ 138,564	\$ 134,176	\$ 4,388	3.8%
Rental assistance	109,808	85,341	24,467	28.7%
Interest subsidy	150,241	141,655	8,586	6.1%
Other income	13,524	6,535	6,989	107.0%
Total operating revenues	<u>412,137</u>	<u>367,707</u>	<u>44,430</u>	
Operating expenses:				
Administration	65,398	60,802	4,596	7.6%
Utilities	63,495	61,357	2,138	3.5%
Operating and maintenance	53,480	40,439	13,041	32.3%
Insurance	10,252	9,498	754	7.9%
Interest expense	200,100	192,412	7,688	4.0%
Overage expense	5,511	14,097	(8,586)	(60.9%)
Depreciation	100,327	101,553	(1,226)	(1.2%)
Total operating expenses	<u>498,563</u>	<u>480,158</u>	<u>18,405</u>	
Operating gain/(loss)	<u>(86,426)</u>	<u>(112,451)</u>	<u>26,025</u>	
Non-operating revenues:				
Interest income	10,482	2,887	7,595	263.1%
Total non-operating revenues:	<u>10,482</u>	<u>2,287</u>	<u>7,595</u>	
Change in net assets	<u>\$ (75,944)</u>	<u>\$(109,564)</u>	<u>\$ 33,620</u>	

**Millard County Housing Authority
Management's Discussion and Analysis (continued)
Year Ended December 31, 2005**

Operating revenues of the Authority's activities are generated principally from rental income, RD interest subsidy, and rental assistance. In FY2005, the Authority's revenues including interest income for its activities totaled \$422,619. Of this total, \$260,049, or 62%, is from RD operating grants. Operating expenses of the Authority's activities consist materially of interest expense. Operating expenses total \$498,563, of which \$200,100, or 40%, was interest expense.

Operating revenues were derived from rental income (32.8%), rental assistance (26.0%), interest subsidy (35.6%), interest income (2.5%), and other income (3.2%).

Operating expenses were derived from administrative (13.1%), utilities (12.7%), operating and maintenance (10.7%), insurance (2.1%), interest (40.1%), overage (1.1%) and depreciation (20.1%).

Decrease in net assets for the year ended December 31, 2005 was \$75,944 compared with a decrease of \$109,564 for the year ended December 31, 2004. Factors contributing to these results included:

- Increase in rental assistance provided by RD during the FY2005

CAPITAL ASSETS

The Authority's capital assets as of December 31, 2005, included land, buildings, and furniture and equipment that totaled \$671,800, most of which is comprised of rental units available for lease to low and moderate income residents.

	<u>2005</u>	<u>2004</u>	<u>Change</u>
Land	\$ 49,979	\$ 49,979	\$ -
Buildings and improvements	2,298,479	2,298,479	-
Furnishings	86,526	86,526	-
Accumulated depreciation	(1,763,184)	(1,662,858)	(100,326)
Total	<u>\$ 671,800</u>	<u>\$ 772,126</u>	<u>\$ (100,326)</u>

CONTACTING AUTHORITY MANAGEMENT

This financial report is designed to provide a general overview of the Authority's accountability for all those interested. Questions concerning this report or requests for additional financial information should be directed to the Chairperson of the Board, Millard County Housing Authority, 274 West 100 South, Delta, Utah 84624.

Millard County Housing Authority
Statement of Net Assets
December 31, 2005

Assets

Current assets:

Cash - operations	\$ 45,696
Accounts receivable - tenants, net	4,327
Prepaid expenses	<u>1,346</u>
Total current assets	51,369

Tenant deposits held in trust	10,379
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Restricted deposits and funded reserves (Note 3):

Replacement reserves	<u>248,051</u>
Total restricted deposits and funded reserves	248,051

Property and equipment:

Land	49,979
Buildings and improvements	2,298,479
Furnishings	<u>86,526</u>
Total property and equipment	2,434,984
Less accumulated depreciation	<u>(1,763,184)</u>
Net property and equipment	671,800

Total assets	<u><u>\$ 981,599</u></u>
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See accompanying notes to financial statements.

Liabilities and Net Assets (Deficit)

Current liabilities:

Accounts payable - operations	\$ 9,958
Accrued payroll taxes payable	1,370
Accrued interest payable	4,119
Current maturities of long-term debt (Note 4)	11,230
Total current liabilities	<u>26,677</u>

Deposits and prepaid liabilities:

Tenants security deposits	10,329
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Long-term liabilities: (Note 4)

Mortgage payable - Rural Development, less current portion	<u>2,239,122</u>
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Total liabilities	<u>2,276,128</u>
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Net assets (deficit)

Invested in capital assets, net of related debt	(1,578,552)
Restricted net assets	248,101
Unrestricted net assets	<u>35,922</u>

Total net assets	<u>(1,294,529)</u>
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Total liabilities and net assets (deficit)	<u><u>\$ 981,599</u></u>
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Millard County Housing Authority
Statement of Activities,
and Changes in Net Assets (Deficit)
Year Ended December 31, 2005

Operating Revenue:

Rental income	138,564
Rental assistance	109,808
Interest subsidy	150,241
Other operating income	13,524
Total revenues	<u>412,137</u>

Expenses:

Administrative	65,398
Utilities	63,495
Maintenance and operating	53,480
Insurance	10,252
Interest expense	200,100
Overage expense	5,511
Depreciation	100,327
Total expenses	<u>498,563</u>

Operating loss (86,426)

Non-operating revenues (expenses):

Interest income	<u>10,482</u>
Total non-operating revenues (expenses)	<u>10,482</u>

Change in net assets	(75,944)
Net assets (deficit) beginning of year	(1,218,585)
Net assets (deficit) end of year	<u><u>\$ (1,294,529)</u></u>

See accompanying notes to financial statements.

Millard County Housing Authority
Statement of Cash Flows
Year Ended December 31, 2005

Cash flows from operating activities:

Rental receipts	\$ 136,302
Interest received	10,482
Rental assistance	109,808
Interest subsidy	150,241
Other cash received	<u>13,524</u>
Total receipts	420,357
Administrative	64,542
Utilities	63,495
Operating and maintenance	53,480
Taxes and insurance	10,252
Tenant security deposits	(1,630)
Overage	5,511
Interest on mortgage	<u>200,178</u>
Total disbursements	<u>395,828</u>
Net cash provided by operating activities	24,529

Cash flows from investing activities:

Net change in replacement reserves	<u>(3,818)</u>
Net cash used in investing activities	(3,818)

Cash flows from financing activities:

Principle payments of mortgage payable	<u>(10,266)</u>
Net cash used in financing activities	<u>(10,266)</u>
Net increase in cash:	10,445
Cash and cash equivalents at beginning of year	<u>35,251</u>
Cash and cash equivalents at end of year	<u><u>\$ 45,696</u></u>

See accompanying notes to financial statements.

**Millard County Housing Authority
Statement of Cash Flows (continued)
Year Ended December 31, 2005**

Cash flows from operating activities:

Change in net assets (deficit)	(75,944)
Adjustments to reconcile change in net assets (deficit) to net cash provided by operating activities:	
Depreciation	100,327
Accounts receivable	(2,262)
Prepaid expenses	(106)
Tenant deposits held in trust	1,851
Accounts payable - operations	842
Accrued wages	120
Tenant security deposits	(221)
Accrued interest	(78)
Net cash provided by operating activities	<u>\$ 24,529</u>

See accompanying notes to financial statements.

Millard County Housing Authority
Notes to Financial Statements
Year Ended December 31, 2005

1. Organization and Summary of Significant Accounting Policies:

Organization

The Millard County Housing Authority (the Authority) was created under the laws of the state of Utah. The purpose of the Authority is to administer programs under the Housing Act of 1937, as amended. These programs are subsidized by the Federal Government through the U.S. Department of Agriculture Rural Development (Rural Development).

Mt. Catherine Manor and Delta Sands Apartments (Projects) are owned by the Authority. The Authority acquired interests in real property located in Fillmore and Delta, Utah, and constructed these projects consisting of 22 units and 33 units, respectively, for the purpose of maintaining and operating multi-family housing developments to provide housing for low and moderate income tenants pursuant to the Rural Rental Housing Program under U.S.D.A.-Rural Development. The Projects are regulated by Rural Development as to rent charges and operating methods.

Basis of Accounting

The Authority prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The supplementary information included with these general-purpose financial statements has been provided in accordance with Rural Development prescribed accounting practices. The accrual basis of accounting recognizes revenue at the time they are earned. Revenue is recognized at the time the Authority applies for and is qualified by Rural Development to receive funds. Revenue that has been received but not earned before the fiscal year end is recorded as deferred revenue. Expenses are recorded when incurred.

Basis of Presentation

In order to insure observance of limitations and restrictions placed on the use of resources available to the Authority, the accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which appropriations, grants or contracts for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives. The Authority participates in the rental assistance and interest subsidy programs on an enterprise fund basis. In addition, the Authority adopts the budget that has been approved by the board of commissioners.

The Authority has adopted the Statement of Government Standards (SGAS) No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. The Authority has elected to apply all applicable FASB pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989. The Authority also elects to apply all FASB pronouncements after November 30, 1989 as long as they do not conflict with or contradict GASB pronouncements.

Millard County Housing Authority
Notes to Financial Statements (continued)
Year Ended December 31, 2005

1. Organization and Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

In June 1999, the GASB issued Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.*" This statement, known as the "Reporting Model" statement, affects the way the Authority prepares and presents financial information. GASB Statement No. 34 established new requirements and a new reporting model for the annual financial reports of state and local governments and had no impact on beginning net assets. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions and includes:

Management's Discussion and Analysis (new in the current year) – GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to analysis the private sector provides in their annual reports and is included as required supplementary information.

Statement of Net Assets – The Statement of Net Assets is designed to display the financial position of the primary government (business-type activities). There are no discretely presented component units. Governments report all capital assets in the government-wide Statement of Net Assets and report depreciation expense – the cost of "using up" capital assets – in the Statement of Activities and Changes in Net Assets. There is no infrastructure. The net assets of the Authority will be broken down into three categories – 1) invested in capital, net of related debt, 2) restricted net assets, and 3) unrestricted net assets.

Statement of Cash Flows – The direct method is required by GASB Statement No. 34.

Financial Reporting Entity

The Governmental Accounting Standards Board (GASB) has issued Statement No. 14, "*The Financial Reporting Entity*," as amended by GASB Statement No. 39 "*Determining Whether Certain Organizations are Component Units*," which describes those entities, which are considered component units for financial reporting purposes. Because Millard County (the County) exercises no oversight responsibility either financially or administratively over the Authority, management of the Authority and the County have determined that the Authority is not a component unit of the County nor of any other government entity under the criteria of GASB Statement No. 14, as amended by GASB Statement No. 39.

Millard County Housing Authority
Notes to Financial Statements (continued)
Year Ended December 31, 2005

1. Organization and Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line method of depreciation over the estimated useful lives of the assets, as shown below. When assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period. Maintenance and repairs, including the replacement of minor items, are expensed as incurred, and major additions to buildings, furnishings, and equipment are capitalized. Construction in progress (if any) commences depreciation when the construction is complete and related assets placed in service.

<u>Major Groupings</u>	<u>Useful Lives (years)</u>
Buildings and improvements	5-20
Furnishings	5-9

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include all cash balances and highly liquid short-term investments with a maturity of three months or less. Restricted deposits and funded reserves are not considered cash equivalents.

Rental Income

Rental income is recognized as rentals become due. Rental payments received in advance are deferred until earned. All leases between the Authority and the tenants of the property are operating leases.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Accounts Receivable and Bad Debts

Accounts receivable consist of tenant rents receivable. The balance is expected to be received within one year of the balance sheet date. The Authority's customers are primarily low-income rental tenants that may be affected by changing economic conditions. Management believes that its credit review procedures and tenant deposits have adequately provided for usual and customary credit-related losses. The Authority's policy for charging off tenant receivables is to consider write-down of receivables extending beyond 120 days after significant collection efforts have been made or when the financial condition of tenants warrants charge-off. Tenant receivables are determined to be past due after 30 days regardless of whether partial payments have been received. Based on the Authority's policy for charging off bad debts to the allowance, the allowance is immaterial.

Millard County Housing Authority
Notes to Financial Statements (continued)
Year Ended December 31, 2005

1. Organization and Summary of Significant Accounting Policies (continued)

Recently Issued Accounting Pronouncements

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*, a replacement of APB Opinion No. 20 and FASB Statement No. 3. This statement changes the requirements for the accounting for and reporting of a change in accounting principle. Previously, Opinion 20 required that most voluntary changes in accounting principle be recognized by including in net income of the period of change the cumulative effect of changing to a new principle. This statement requires retrospective application to prior periods' financial statements of changes in accounting principle, when practicable. The adoption of SFAS No. 154 did not have a material impact on the Authority's financial condition or results of operations.

2. Activities of the Authority

The Authority manages 55 units for the purpose of maintaining and operating multi-family housing developments to provide housing for low and moderate income tenants pursuant to the Rural Rental Housing Program Under Rural Development.

<u>Project</u>	<u>Case Number</u>	<u>Number Authorized</u>	<u>Type of Program</u>
Mt. Catherine Manor	52-014-870425243	22	Owned Rental Housing
Delta Sands Apts.	52-014-870425243	33	Owned Rental Housing

3. Deposits and Investments

Deposits

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the State, and review the rules adopted under the authority of the State of Utah Money Management Act (the Act) that relate to the deposit and investment of public funds.

The Authority follows the requirements of the Act (Utah Code, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of the Authority funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Millard County Housing Authority
Notes to Financial Statements (continued)
Year Ended December 31, 2005

3. Deposit and Investments (continued)

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned. The Authority does not have a formal deposit policy for custodial credit risk. As of December 31, 2005, all of the Authority's bank balances of \$36,090 was insured and collateralized.

Investments

The Act defines the types of securities authorized as appropriate investments for the Authority and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with the issuers of the investments securities.

Statutes authorize the Authority to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Service or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund.

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Act. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

For the year ended December 31, 2005, the Authority had investments of \$270,866 with the Utah Public Treasurers Investment Fund. The entire balance had a maturity less than one year.

**Millard County Housing Authority
Notes to Financial Statements (continued)
Year Ended December 31, 2005**

3. Deposits and Investments (continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority's policy for reducing its exposure to credit risk is to comply with the Act as previously discussed. At December 31, 2005, all Authority investments were unrated.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Authority's policy for reducing this risk of loss is to comply with the Rules of the Money Management Council.

4. Long-Term Liabilities

Mt. Catherine Manor

The mortgage notes payable are Rural Rental Housing Program mortgage loans under Rural Development. The mortgage notes are collateralized by the land and building and bear interest at 7.75% per annum. The contract rates are subject to an interest credit agreement, which reduces the effective interest rate to 1% per annum. Principal and interest are payable in equal monthly installments of \$1,938 and \$324, net of interest subsidy, due January 2044.

Delta Sands Apartments

The mortgage notes payable are Rural Rental Housing Program mortgage loans under Rural Development. The mortgage notes are collateralized by the land and building and bear interest at 10.625% and 9% per annum. The contract rates are subject to an interest credit agreement, which reduces the effective interest rate to 1% per annum. Principal and interest are payable in equal monthly installments of \$2,098 and \$657, net of interest subsidy, due August 2036 and October 2038, respectively.

Millard County Housing Authority
Notes to Financial Statements (continued)
Year Ended December 31, 2005

4. Long-Term Liabilities (continued)

Future maturities of long-term debt are as follows:

Year ending December 31,	
2006	\$ 11,230
2007	12,217
2008	13,214
2009	14,294
2010	15,464
Thereafter	<u>2,183,933</u>
Total long-term debt	<u>\$ 2,250,352</u>

As is customary in the low-income housing industry, interest rates on loans used to finance the purchase of low-income housing are, in some cases, substantially below usual prevailing market rates in other industries and many loans bear interest rate subsidies and longer terms than what is customary. As a result, debt discounts based on the future value of the cumulative differences between actual interest rates and prevailing market rates have not been recorded on the Authority's financial statements as the difference between actual interest rates and interest rates that are customary in the industry are not considered material. Management is of the opinion that recording substantial debt discounts based on differences from prevailing rates in other industries would make the financial statements misleading.

5. Economic Dependency

A substantial amount of the revenues received by the Authority come from U.S.D.A.-Rural Development. The Authority received \$109,808 in rental assistance during the year ended December 31, 2005, along with an interest subsidy of \$150,241. Programs operated by the Authority depend upon continued funding by the U.S. Government.

6. Risk Management

The Authority is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the Authority to purchase commercial insurance for these risks. Various policies require minimal deductible amounts which the Authority pays in the event of any loss. The Authority also has purchased a workers' compensation policy. Settled claims resulting from losses have not exceeded commercial insurance coverage in any of the past three fiscal years.

7. Interprogram Eliminations

The Authority has interprogram receivables and payables totaling \$5,868 that have been eliminated on the basic financial statements.

Supplemental Information

Millard County Housing Authority
Program Specific-Statement of Net Assets
December 31, 2005

	<u>Mt. Catherine Manor</u>	<u>Delta Sands Apartments</u>	<u>Total</u>
Assets			
Current assets:			
Cash	\$ 13,865	\$ 31,831	\$ 45,696
Accounts receivable	2,592	1,735	4,327
Interprogram receivables	-	5,868	5,868
Prepaid expenses	-	1,346	1,346
Total current assets	<u>16,457</u>	<u>40,780</u>	<u>57,237</u>
Restricted deposits and funded reserves:			
Tenants' security deposits	4,028	6,351	10,379
Reserve account	<u>117,581</u>	<u>130,470</u>	<u>248,051</u>
Total restricted deposits and funded reserves	121,609	136,821	258,430
Property and equipment:			
Land	39,979	10,000	49,979
Buildings & improvements	1,044,200	1,254,279	2,298,479
Furniture & equipment	<u>34,106</u>	<u>52,420</u>	<u>86,526</u>
Total property and equipment	1,118,285	1,316,699	2,434,984
Less accumulated depreciation	<u>(524,425)</u>	<u>(1,238,759)</u>	<u>(1,763,184)</u>
Net property and equipment	593,860	77,940	671,800
 Total assets	 <u><u>\$ 731,926</u></u>	 <u><u>\$ 255,541</u></u>	 <u><u>\$ 987,467</u></u>

See accompanying notes to financial statements.

	Mt. Catherine Manor	Delta Sands Apartments	Total
Liabilities and Net Assets (Deficit)			
Current liabilities:			
Accrued interest	\$ 1,863	\$ 2,256	\$ 4,119
Accrued payroll taxes	-	1,370	1,370
Accounts payable	5,726	4,232	9,958
Interprogram payables	5,868	-	5,868
Current maturities of long-term debt	4,954	6,276	11,230
Total current liabilities	18,411	14,134	32,545
Deposits and prepaid liabilities:			
Tenants security deposits	4,179	6,150	10,329
Long-term liabilities:			
Mortgage payable - less current portion	1,008,681	1,230,441	2,239,122
Total long-term liabilities	1,008,681	1,230,441	2,239,122
Total liabilities	1,031,271	1,250,725	2,281,996
Net assets (deficit)			
Invested in capital assets, net of related debt	(419,775)	(1,158,777)	(1,578,552)
Restricted net assets	117,430	130,671	248,101
Unrestricted net assets	3,000	32,922	35,922
Total net assets	(299,345)	(995,184)	(1,294,529)
Total liabilities and net assets (deficit)	\$ 731,926	\$ 255,541	\$ 987,467

**Millard County Housing Authority
Program Specific-Statement of Activities,
and Changes in Net Assets (Deficit)
Year Ended December 31, 2005**

	<u>Mt. Catherine Manor</u>	<u>Delta Sands Apartments</u>	<u>Totals</u>
Revenues:			
Rental income	\$ 56,710	\$ 81,854	\$ 138,564
Rental assistance	60,215	49,593	109,808
Interest subsidy	53,937	96,304	150,241
Interest income	3,831	6,651	10,482
Other income	9,391	4,133	13,524
Total revenues	<u>184,084</u>	<u>238,535</u>	<u>422,619</u>
Expenses:			
Maintenance and operating	30,414	23,066	53,480
Utilities	27,173	36,322	63,495
Administrative	29,611	35,787	65,398
Insurance	4,975	5,277	10,252
Interest expense	76,459	123,641	200,100
Depreciation	38,011	62,316	100,327
Overage expense	2,263	3,248	5,511
Total expenses	<u>208,906</u>	<u>289,657</u>	<u>498,563</u>
Net loss	(24,822)	(51,122)	(75,944)
Net assets (deficit) beginning of year	<u>(274,524)</u>	<u>(944,061)</u>	<u>(1,218,585)</u>
Net assets (deficit) end of year	<u>\$ (299,345)</u>	<u>\$ (995,184)</u>	<u>\$ (1,294,529)</u>

See accompanying notes to financial statements.

**Millard County Housing Authority
Supplemental Information Required by Rural Development
Year Ended December 31, 2005**

Program Cash Accounts:

Mt. Catherine Manor:

<u>Account Title</u>	<u>Financial Institution</u>	<u>Balance 12/31/05</u>	<u>Interest Rate</u>	<u>Encumbered</u>
Petty cash	N/A	\$ 100	N/A	No
Operating	Wells Fargo Bank	\$ 13,765	N/A	No
Security deposits	Wells Fargo Bank	\$ 4,028	Market	No
Reserve	Utah Public Treasurers' Investment Fund	\$ 117,581	Market	No

Delta Sands Apartments:

<u>Account Title</u>	<u>Financial Institution</u>	<u>Balance 12/31/05</u>	<u>Interest Rate</u>	<u>Encumbered</u>
Operating	Wells Fargo Bank	\$ 9,016	N/A	No
Investment	Utah Public Treasurers' Investment Fund	\$ 22,815	Market	No
Security deposits	Wells Fargo Bank	\$ 6,351	Market	No
Reserve	Utah Public Treasurers' Investment Fund	\$ 130,470	Market	No

Insurance:

Mt. Catherine Manor:

	<u>Amount of coverage</u>	<u>Expiration date</u>
Building	\$ 1,902,700	Mar. 2006
Liability	1,000,000	Mar. 2006
Fidelity	25,000	Mar. 2006

Delta Sands Apartments:

Building	\$ 2,401,600	Mar. 2006
Liability	1,000,000	Mar. 2006
Fidelity	25,000	Mar. 2006

Millard County Housing Authority
Supplemental Information Required by Rural Development (continued)
Year Ended December 31, 2005

Reserve Account:

In accordance with the provisions of the Rural Development Rural Rental Housing Loan Program, reserve funds are to be used for renovation or special maintenance with the approval of Rural Development. The activity in the reserve account for the year ended December 31, 2005, is as follows:

Mt. Catherine Manor:

Balance required at January 1, 2005	\$ 103,260
Required deposits	-
Rural Development approved withdrawals	-
Balance required at December 31, 2005	103,260
Balance at December 31, 2005, confirmed	117,581
Excess of requirement	<u>\$ 14,321</u>

Delta Sands Apartments:

Balance required at January 1, 2005	\$ 128,675
Required deposits	-
Rural Development approved withdrawals	-
Balance required at December 31, 2005	128,675
Balance at December 31, 2005, confirmed	130,470
Excess of requirement	<u>\$ 1,795</u>

**Millard County Housing Authority
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2005**

Federal Federal Assistance Programs Agency/Program Grant Title	CFDA Number	Federal Expenditures
U.S. Department of Agriculture:		
Direct Programs:		
Rural Rental Housing Loans	10.415	2,250,352
Rural Rental Housing Loans – Interest Subsidy	10.415	150,241
Rural Rental Assistance Payments	10.427	<u>109,808</u>
Total expenditures of federal awards		<u>\$ 2,510,401</u>

Millard County Housing Authority
Notes to Schedule of Expenditure of Federal Awards
Year Ended December 31, 2005

1. Scope of Audit Pursuant to OMB Circular A-133

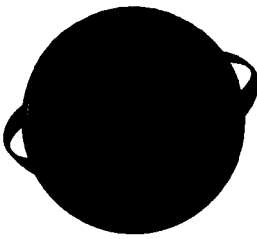
The Schedule of Expenditures of Federal Awards (the Schedule) presents the activity of all federal award programs of the Authority. All federal awards received directly from federal agencies as well as federal awards passed through other governmental agencies or other entities are included in the Schedule.

2. Basis of Presentation

The Authority's Schedule of Expenditures of Federal Awards has been prepared using the same basis of accounting as the December 31, 2005 financial statements of the Authority. The Authority reports to RD using the accrual basis of accounting. A complete description of the basis of accounting is included in note 1 to those financial statements.

3. Contingencies

In connection with various federal grant programs, the Authority is obligated to administer related programs and spend the funds in accordance with regulatory restrictions, and is subject to audit by grantor agencies and other auditors. In cases of noncompliance, the agencies involved may require the Authority to refund program funds.



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J. Russ Bradshaw, CPA
William R. Denney, CPA
Roger B. Kennard, CPA
Scott L. Farnes

Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Commissioners
Millard County Housing Authority
Delta, Utah

We have audited the financial statements of the business-type activities and major fund of Millard County Housing Authority (the Authority), as of and for the year ended December 31, 2005, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated June 14, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grants, agreements, and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the audit committee, management, others within the Authority, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

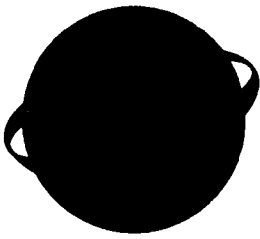
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Child, Van Wagoner & Bradshaw, PLLC
Kaysville, Utah
June 14, 2006

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Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133

Board of Commissioners
Millard County Housing Authority
Delta, Utah

Compliance

We have audited the compliance of Millard County Housing Authority (the Authority) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2005. The Authority's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2005.

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Board of Commissioners
Millard County Housing Authority

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the audit committee, board of commissioners, management, others within the Authority, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Child, Van Wagoner & Bradshaw

Child, Van Wagoner & Bradshaw, PLLC
Kaysville, Utah
June 14, 2006

**Millard County Housing Authority
Schedule of Findings and Questioned Costs
Year Ended December 31, 2005**

Section I-Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No

- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X None reported

- Non compliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No

- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X None reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

_____ Yes X No

Identification of major programs?

CFDA Number(s)
14.415

Name of Federal Program or Cluster
Rural Rental Housing Loans

Dollar threshold used to distinguish between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

_____ Yes X No

**Millard County Housing Authority
Schedule of Findings and Questioned Costs (continued)
Year Ended December 31, 2005**

No matters are reported for the year ended December 31, 2005.

**Millard County Housing Authority
Schedule of Findings and Questioned Costs - Prior Year
Year Ended December 31, 2005**

No matters were reported for the year ended December 31, 2004.

**Independent Auditors' Report on State
of Utah Legal Compliance**

Board of Commissioners
Millard County Housing Authority
Delta, Utah

We have audited the general purpose financial statements of the Millard County Housing Authority (the Authority), for the year ended December 31, 2005, and have issued our report thereon dated June 14, 2006. Our audit included testwork on the Authority's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Cash Management
Other Compliance Requirements

The Authority did not receive any major or nonmajor State grants during the year ended December 31, 2005.

The management of the Authority is responsible for the Authority's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed an instance of noncompliance with the requirements referred to above which we reported to the management of the Authority in a separate letter dated June 14, 2006.

We considered the above instance of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the Authority, complied, in all material respects, except for the instance of noncompliance reported above, with the general compliance requirements identified in the State of Utah Legal Compliance Audit Guide for the year ended December 31, 2005.

Child, Van Wagoner & Bradshaw

Child, Van Wagoner & Bradshaw, PLLC
Kaysville, Utah
June 14, 2006



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June 14, 2006

To the Board of Commissioners
of Millard County Housing Authority
274 W. 100 S.
Delta, Utah 84624

As auditors, we feel it is beneficial to our clients to offer suggestions for improvement with regards to their financial recording systems and internal controls. This letter to the management is a summary of suggestions we noted for the audit of Millard County Housing Authority (the Authority) for the year ended December 31, 2005.

1. We noted that the Authority is in a deficit position. Utah Code states that appropriations in the final budgets may not be made for any fund in excess of the estimated expendable revenues for the budget year. In other words, deficits in any fund are illegal. The deficit has arisen because the Authority has such a high amount of depreciation expense each year. Without this depreciation expense figured in, the authority would not be in a deficit position. The Authority would have net income, not a net loss, if depreciation were not included in operating expenses. Depreciation is not a cash expense, so this exclusion is reasonable. Because the Authority is in a deficit position we are required to report this to the Board of Commissioners by the State of Utah, no recommendations are to be made.
2. We noted that the Authority is not registered with the Utah Department of Commerce or have any articles of organization. We recommend that the Authority adopt a set of articles pertaining to the organization of the Authority. We also recommend that the Authority register with the Utah Department of Commerce. For assistance please contact the Utah Department of Commerce toll free at (877) 526-3994 or Van Christensen at the State Auditor's Office at (801) 538-1394.
3. We noted that there appears to be checks on the check reconciliation that are from prior years that have not cleared the bank statement yet. We recommend that the Authority look into the checks that have not cleared the bank yet and do not suspect the checks will ever clear the bank, clear the checks off the books and if needs reissue the check to the vendor.

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We are required to disclose to you whether it is our opinion that the material misstatements leading up to the audit adjustments may be indicative of fraud, misrepresentation, or abuse. We do not feel that the audit adjustments for the year ended December 31, 2005, were indicative of fraud, misrepresentation, or abuse.

Our firm is independent of the Authority and this independence has been communicated to management.

Thank you for allowing us to serve you and make these suggestions. We look forward to our continuing professional relationship and to assisting you with the above recommendations. Please call me if you have any questions or concerns.

Very truly yours

A handwritten signature in cursive script, appearing to read "Scott Farnes".

Scott L. Farnes, Principle
Child, Van Wagoner & Bradshaw, PLLC

19 July 2006

Murray A. Curtis, CPA
Office of the State Auditor
211 East State Capitol
Salt Lake City, Utah 84114

Re: Millard County Housing Authority year ended December 31, 2005 financial audit non-compliance issue - deficit fund balance.

Dear Mr. Curtis,

Millard County Housing Authority is a low income senior housing complex funded by the United States Department of Agriculture department of Rural Development. Funding is fixed based on income levels of the tenants living in the apartments. Budgets are submitted yearly that require the housing complexes to set their rates based on operating costs of the facilities. Capital costs are not included in the budget and rate setting process because the facilities are funded by the USDA. We have reported the Housing Authority with a deficit fund balance from the year of construction (1985). The reported deficit is primarily due to the reporting of depreciation in operating expenses. Depreciation does not represent a cash outlay and the Housing Authority would show a positive retained earnings if depreciation expenses were not included.

This letter is in response to the audit non-compliance issues presented on our yearly audit for the year ended December 31, 2005 prepared by Child, Sullivan & Company. We requested the auditors to include this letter for your review. Please review the prior year audit for 2004 a similar letter was included.

We appreciate your consideration and direction in this matter.

Sincerely yours,


Van Jaeger, Accountant
Millard County Housing Authority